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July 24, 2020

Ms. Marija Tresoglavic
Acting Commission Secretary and Manager
Regulatory Support
British Columbia Utilities Commission
Suite 410, 900 Howe Street
Vancouver, BC V6Z 2N3

Dear Ms. Tresoglavic:

RE: Project No. 1598990
British Columbia Utilities Commission (BCUC or Commission)
British Columbia Hydro and Power Authority (BC Hydro)
Fiscal 2020 to Fiscal 2021 Revenue Requirements Application
(the Application)

BC Hydro writes in response to the Panel's request for written submissions regarding its proposed approach to the timing of BC Hydro's revenue requirement applications (**RRAs**), as set out in Exhibit A-37.

BC Hydro supports establishing a cycle that would allow BCUC decisions on BC Hydro's RRAs to occur earlier, so that BC Hydro has more time to adjust to BCUC directives affecting the test period under review.

BC Hydro is prepared to change its budgeting processes and timelines so that RRAs can be filed earlier and is generally supportive of the transition plan outlined in Exhibit A-37, which begins with a fiscal 2022 RRA being filed in December 2020, with the following considerations:

- It is important to recognize the unprecedented uncertainty created by the COVID-19 pandemic, and the potential for this uncertainty to have a substantial impact on BC Hydro's revenues and rates. We will still be in the midst of this uncertainty and its full impact is hard to predict.
- While the potential for these revenue and rate impacts might normally tend to drive more process, it will be important for the fiscal 2022 RRA proceeding to be conducted efficiently, with some streamlining to allow for an expeditious resolution. BC Hydro expects that it would be very challenging to participate in a proceeding on fiscal 2022 rates while, at the same time, developing an application for fiscal 2023 and beyond. While BC Hydro understands that FortisBC's Annual Review process typically takes approximately four months to conclude, this largely reflects the design of its Performance Based Regulation (**PBR**) plan. Achieving a similar result in the

case of BC Hydro's fiscal 2022 RRA would require BCUC direction on scoping, and efforts on behalf of all parties to focus on the most pertinent issues. While BC Hydro will always put forward its best efforts to meet the BCUC's timelines, the same people would be involved in both processes. Avoiding the need to conduct this work simultaneously would lead to better information and better outcomes. BC Hydro believes that, since a full hearing on the current fiscal 2020-2021 RRA will have only just finished, the proceeding time for reviewing the fiscal 2022 RRA can be significantly shortened through careful scoping at the outset.

- The need to manage two RRA processes in a single year will likely mean that BC Hydro's fiscal 2023 – 20XX RRA (BC Hydro has not yet determined if the test period will be for two or three years) will need to be filed in the fall of 2021, rather than June 2021. BC Hydro will need time to incorporate the results of the BCUC's decision on the fiscal 2022 RRA. In addition, many of the same individuals who will work on the fiscal 2022 RRA and the fiscal 2023-20XX RRA are involved in other BCUC filings (e.g. Integrated Resource Plan, Transfer Pricing Agreement). For subsequent revenue requirements applications, BC Hydro believes the summer filing timeline will work.
- The BCUC's suggestion to potentially use an inflation-based mechanism for fiscal 2022 as a means of streamlining the review could be workable with some temporary reliance on deferral accounts, as also suggested by the BCUC in its A-37 letter. This would allow for the deferral of any portion of BC Hydro's revenue requirement that will not be collected in fiscal 2022 for recovery in subsequent test period(s). However, in addition to the unprecedented load impacts caused by COVID-19, many of BC Hydro's costs are not directly tied to inflation. BC Hydro also identified areas within operating costs where it will need to make additional investments (referenced by Mr. O'Riley during his testimony in the fiscal 2020 – 2021 RRA), such as vegetation management, cybersecurity and employee training required to ensure BC Hydro meets evolving safety and regulatory requirements.

A more realistic alternative would be to use a cost of service approach focussed on incremental requirements, relative to what the BCUC will have just finished reviewing in the current proceeding, for specific items that will be outlined in the application. For example, again with respect to operating costs, we would identify incremental needs for specific areas such as those mentioned above and could propose an inflation-based approach for other areas. The current Application presented a "ground up" justification for BC Hydro's operating costs; if there are underlying concerns about the current budgets we would expect the BCUC would be identifying those in its pending decision on the fiscal 2020-2021 Application. This would allow BC Hydro's fiscal 2022 RRA to focus primarily on important areas where BC Hydro is experiencing cost pressures.

- If filed in December 2020, the fiscal 2022 RRA will include updated information on BC Hydro's capital plan and load forecast. For example, we would provide our current version of the capital plan (which is a more recent version from the fiscal 2020-2021 RRA Application) With respect to the load forecast, we would provide

forecasts showing potential scenarios underlining the uncertainty related to COVID-19 and the related impacts on customer revenues.

However, it should be noted that work on both the capital plan and load forecast is currently underway as part of their annual cycles, under which drafts are completed in the late fall and approved in January 2021. Those iterations will not be available in time to incorporate into the December 2020 filing, since the load and capital inputs are required months in advance to complete the company's budget and forecast revenue requirements. In order for the fiscal 2022 RRA process to be completed using the BCUC's contemplated streamlined process and in a reasonable period of time, the BCUC would likely have to direct that the application would be decided based on the load forecast and capital plan included in the December 2020 filing.

- Under current BCUC orders, a number of BC Hydro's regulatory accounts are recovered "over the next test period" or in other words, over a single year, if BC Hydro files an application for fiscal 2022 rates only. To avoid upward rate pressures, BC Hydro may propose - and the BCUC and interveners may wish to consider - amendments to these orders for the purpose of setting fiscal 2022 rates.

We believe all the points above align with the BCUC's considerations when noting foregoing a full cost of service review for F2022 and reflecting it as a "Gap Year" as discussed in more detail in Exhibit A-37.

With these considerations in mind, BC Hydro supports:

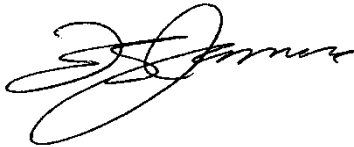
- the BCUC including in its decision an acknowledgement that the fiscal 2022 RRA to be filed by BC Hydro will need to be less detailed than the Application filed in the current proceeding, with a focus on what has changed;
- an efficient process for the fiscal 2022 RRA with fewer procedural steps (akin to the FortisBC Annual Review process or, potentially a Negotiated Settlement Process or Streamlined Review Process), occurring over a compressed time period, with a focused scoping order to ensure that this type of process is feasible; and
- the BCUC refraining from issuing a recommendation on the timing of an application for rates in fiscal 2023 and beyond until the timeline for the review of the fiscal 2022 application has been established

The Panel has also invited submissions on the base year to be used, if the BCUC decides to adopt PBR for BC Hydro and the resulting PBR plan requires a base year to be established. The Panel has identified both fiscal 2023 and fiscal 2024 as potential options. In BC Hydro's view, if a PBR base year is required, the last year of the test period that will begin in fiscal 2023 should be used. The proceeding to consider BC Hydro's PBR Report is in the early stages. The design of a PBR plan is complex, with other jurisdictions experiencing considerable implementation challenges and some even opting to return to cost of service regulation. All of this suggests that, should a PBR base year be required, allowing an additional year for consultation and design work, is likely to be very beneficial for all parties.

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For further information, please contact Chris Sandve at 604-974-4641 or by email at bchydroregulatorygroup@bchydro.com.

Yours sincerely,



Fred James
Chief Regulatory Officer